

Reverse Mortgages

A New Financing Option for Long-Term Care



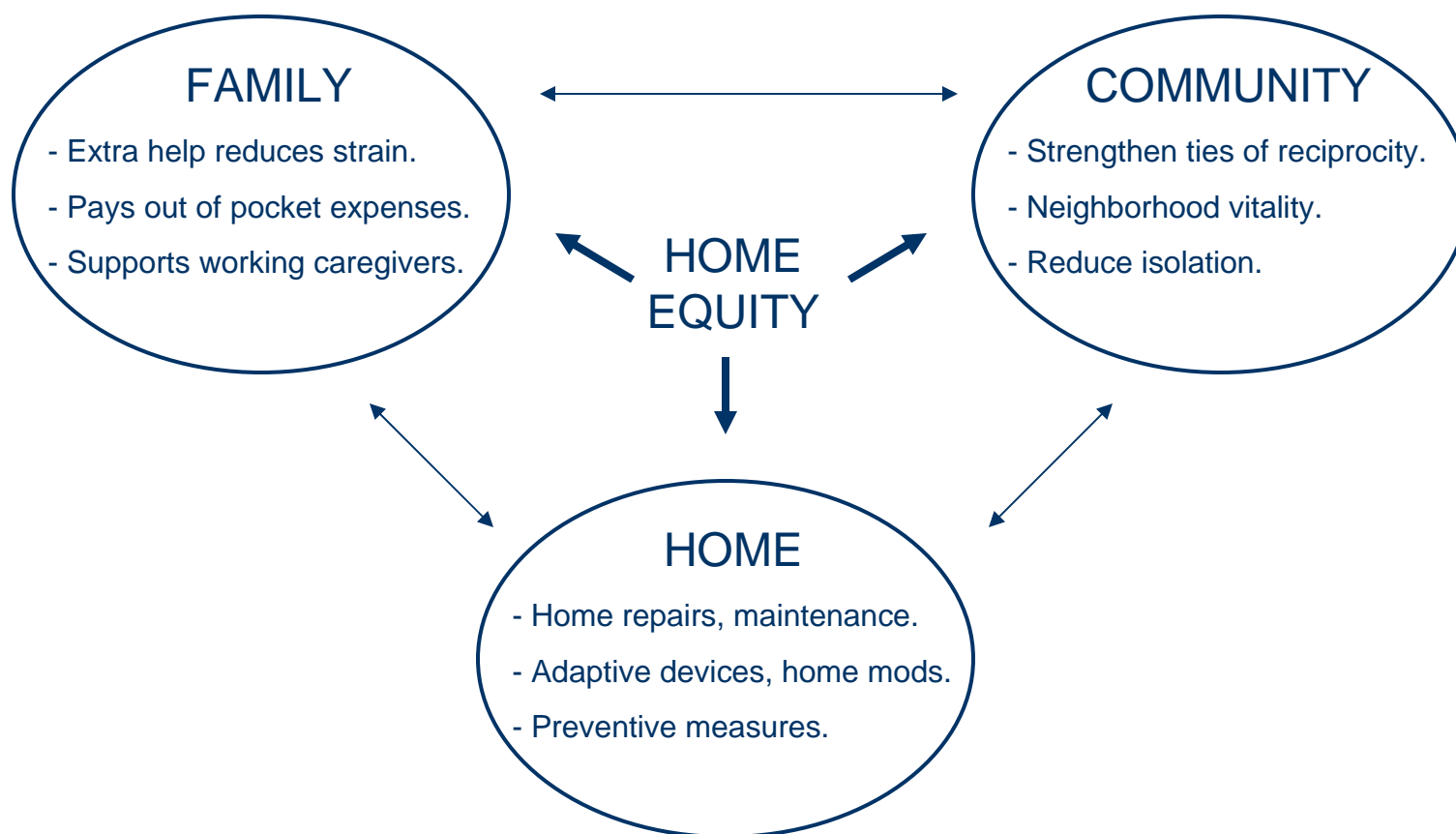
Presentation to the
New Funding Models Advisory Committee
Washington State
Long-Term Care Task Force
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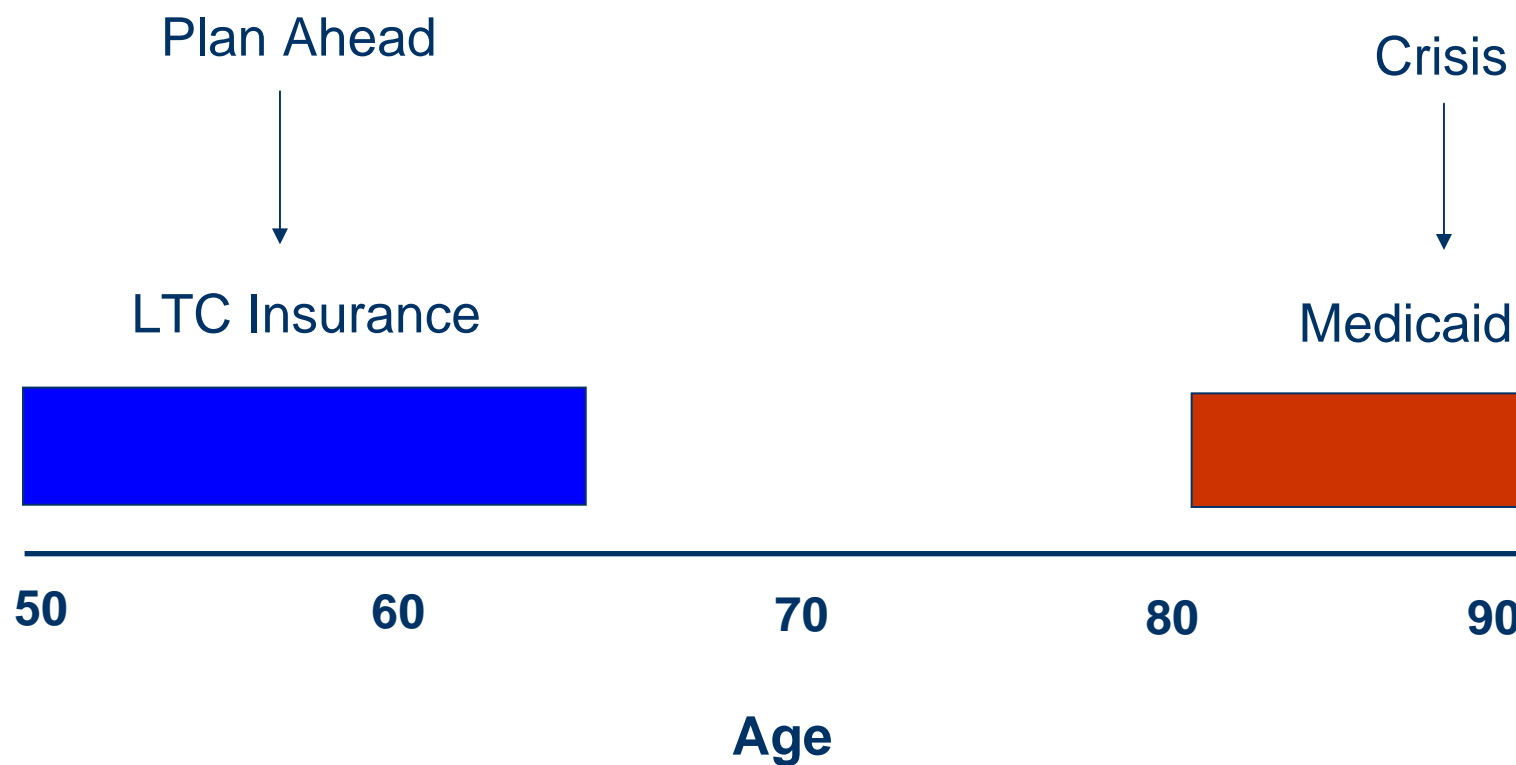
Why tap home equity for LTC?

- Promotes “aging in place” by paying for a wide array of unmet needs.
- More resilience to manage the financial uncertainties that come with declining health.
- Choice, control, and dignity for impaired elders.
- Funds for early interventions as well as immediate needs.

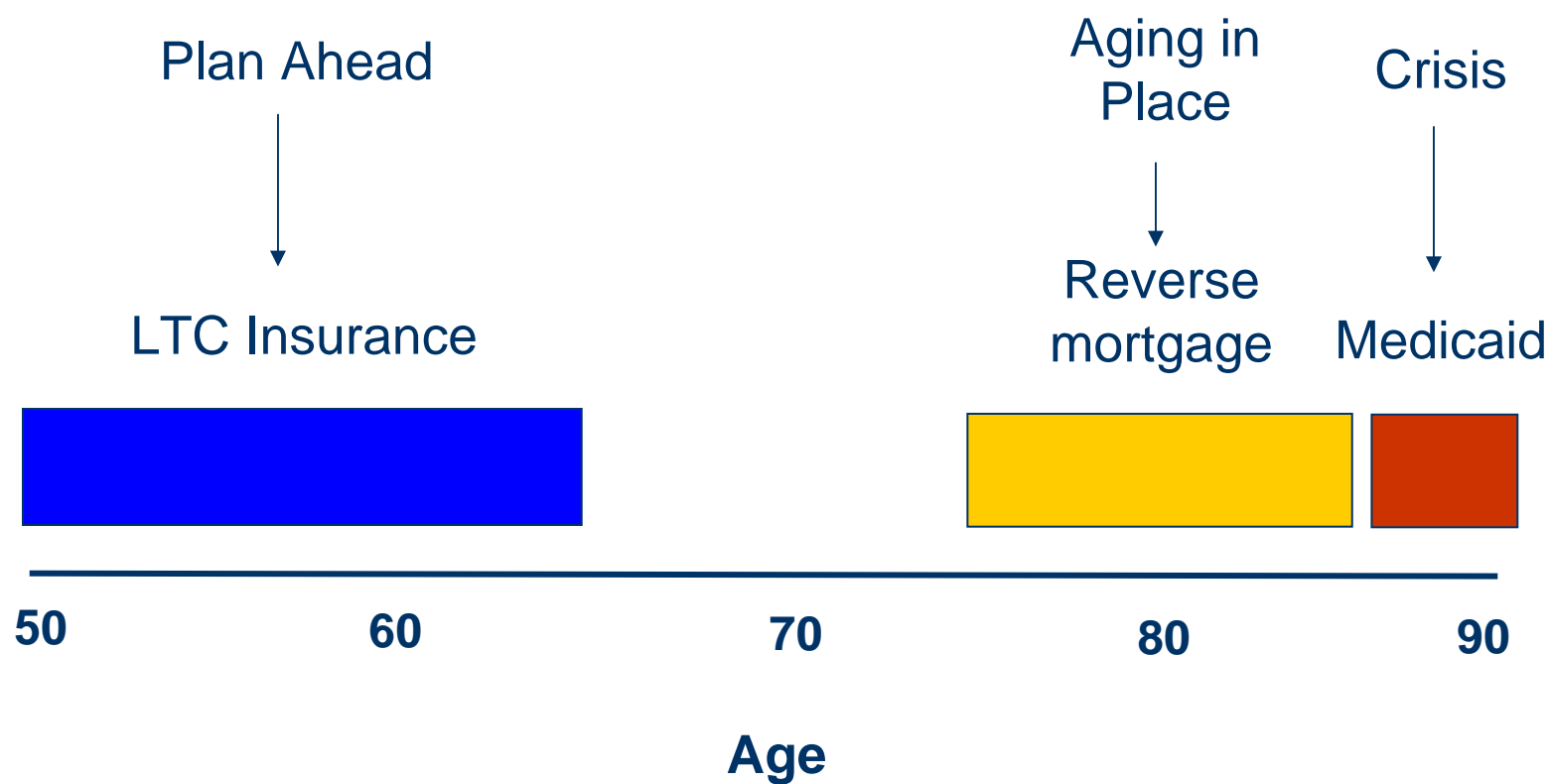
Broader role of home equity



LTC financing options today



Home equity – Fills a gap



Need more effective public policy

- Poor choices among impaired homeowners.
 - Alternatives - Predatory loans, transferring title to home, credit card debt.
 - Unclear about appropriate use of home equity.
- Federal Deficit Reduction Act of 2006.
 - \$500,000 limit on home equity for Medicaid access.
- State leadership to help older homeowners.
 - WA Systems Change grant application 2005.
 - Make reverse mortgages a better deal – cost and protections – Minnesota, Los Angeles, WA State.



Why Reverse Mortgages?

Options to tap home equity

- Sell the house.
- Conventional home equity loans.
- Single purpose loans (property tax deferral, home repairs).
- Reverse mortgages.

Reverse mortgages – The basics

- Allows homeowners age 62+ to convert home equity into cash while living at home for as long as they want.
- Can receive payments as a lump sum, line of credit, or monthly payments (for up to life in the home). Loan can be used for any purpose.
- Borrowers continue to own the home.
- Loan comes due when the (last) borrower moves out, dies, or sells the home.
- Any home value left after paying the loan, including home appreciation, belongs to the borrowers or heirs.

Types of reverse mortgages

- Home Equity Conversion Mortgage (HECM).
 - HUD program, insured by FHA.
 - Represents 90% of the market.
- Cash Account loans offered by Financial Freedom Senior Funding Corporation.
 - Designed for homes worth \$600,00+.
 - Offer loans with no closing costs.
- Fannie Mae Home Keeper loan.

Consumer protections

- Must receive counseling from a HUD-approved agency before taking out a loan.
- Lenders must inform borrowers of estimated loan costs.
- Upfront costs of the HECM loan are regulated, and there are limits on total fees and interest rate increases.
- Line of credit grows annually, depending on interest rate.
- Right to stay in the home as long as property taxes and insurance are paid, and the home is maintained.
- Never owe more than the value of the house at the time of sale or repayment of the loan.

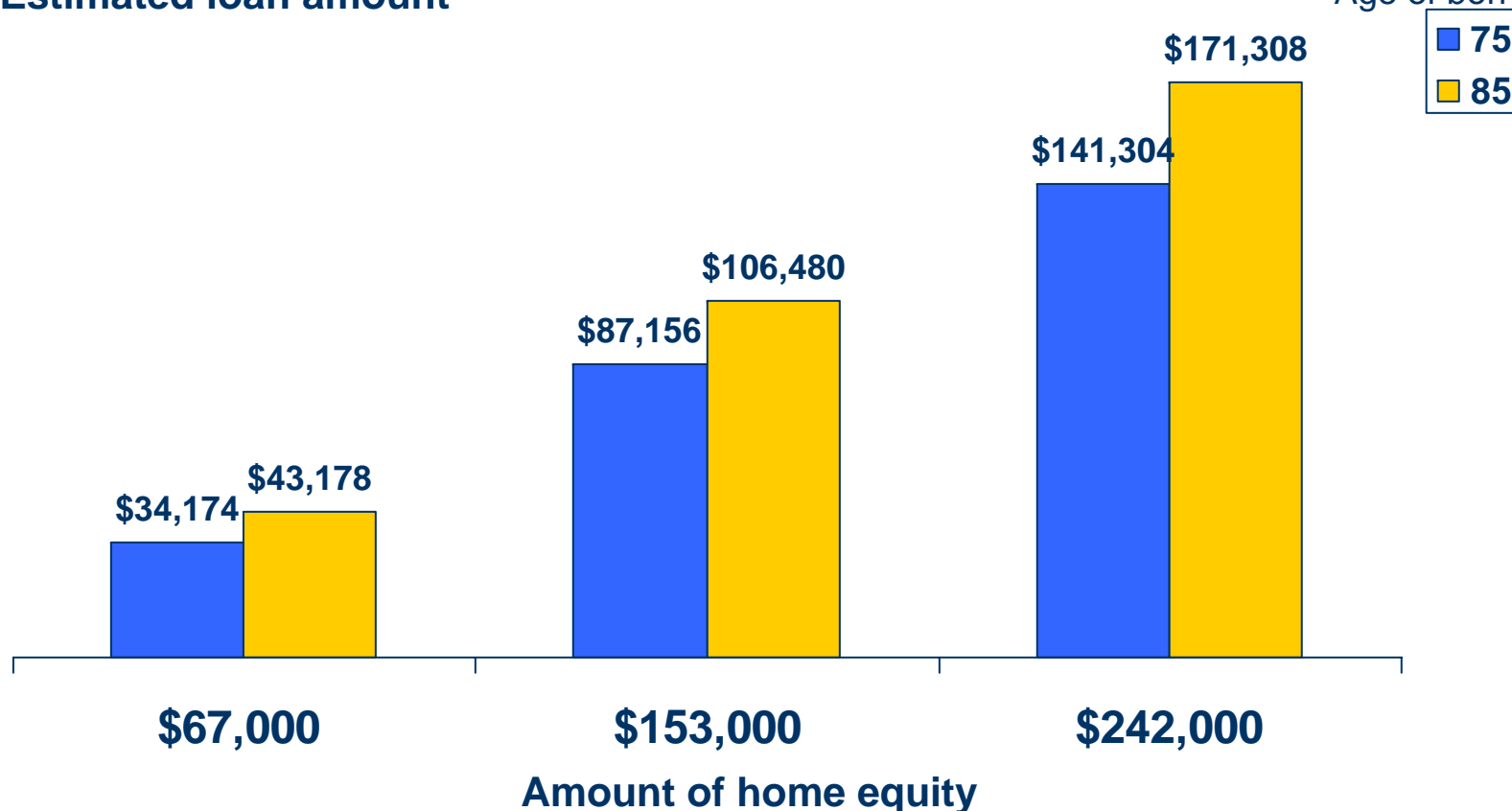


Using a Reverse Mortgage for Aging in Place

Potential reverse mortgage loan

Estimated loan amount

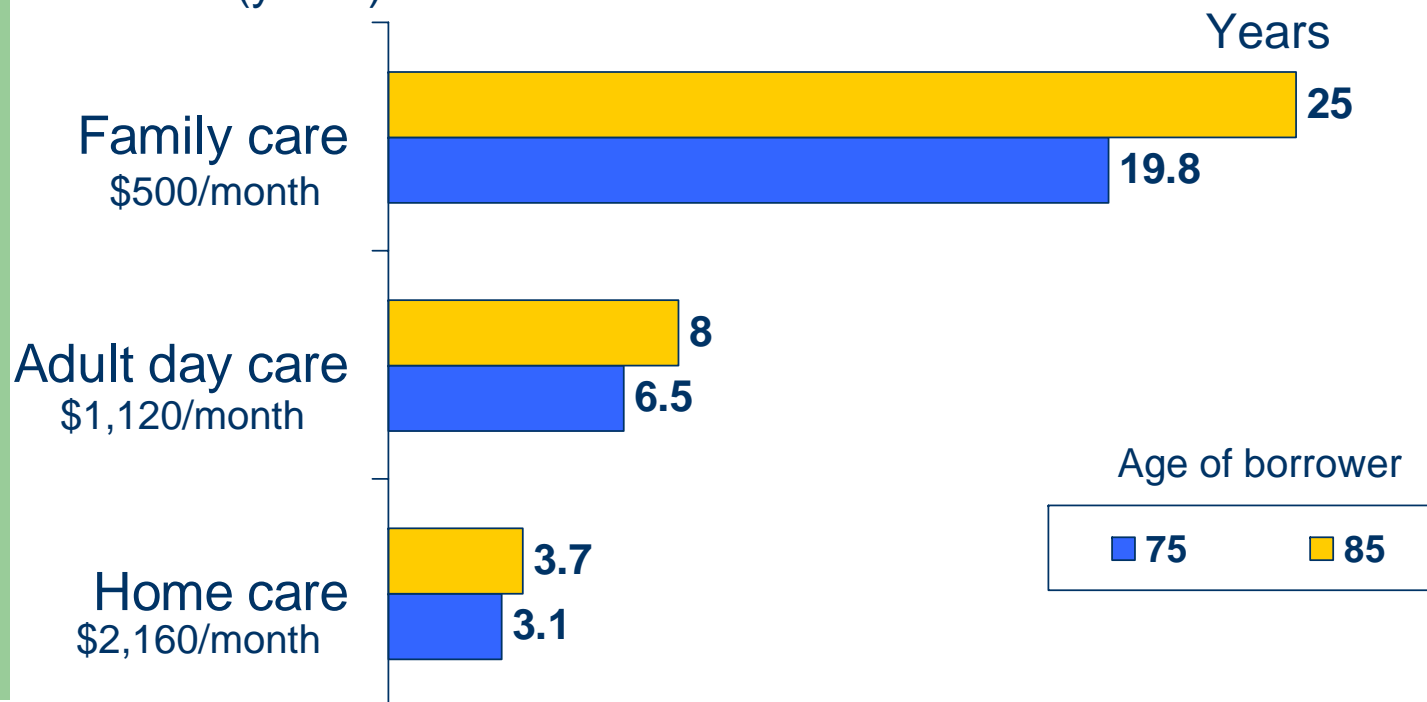
Age of borrower



Note: Based on the AARP reverse mortgage calculator for 6/6/06. Interest rate for this week= 6.53%.

Reverse mortgages can pay for help at home for many years

Likely duration of funds based on monthly withdrawals from a HECM creditline (years)*



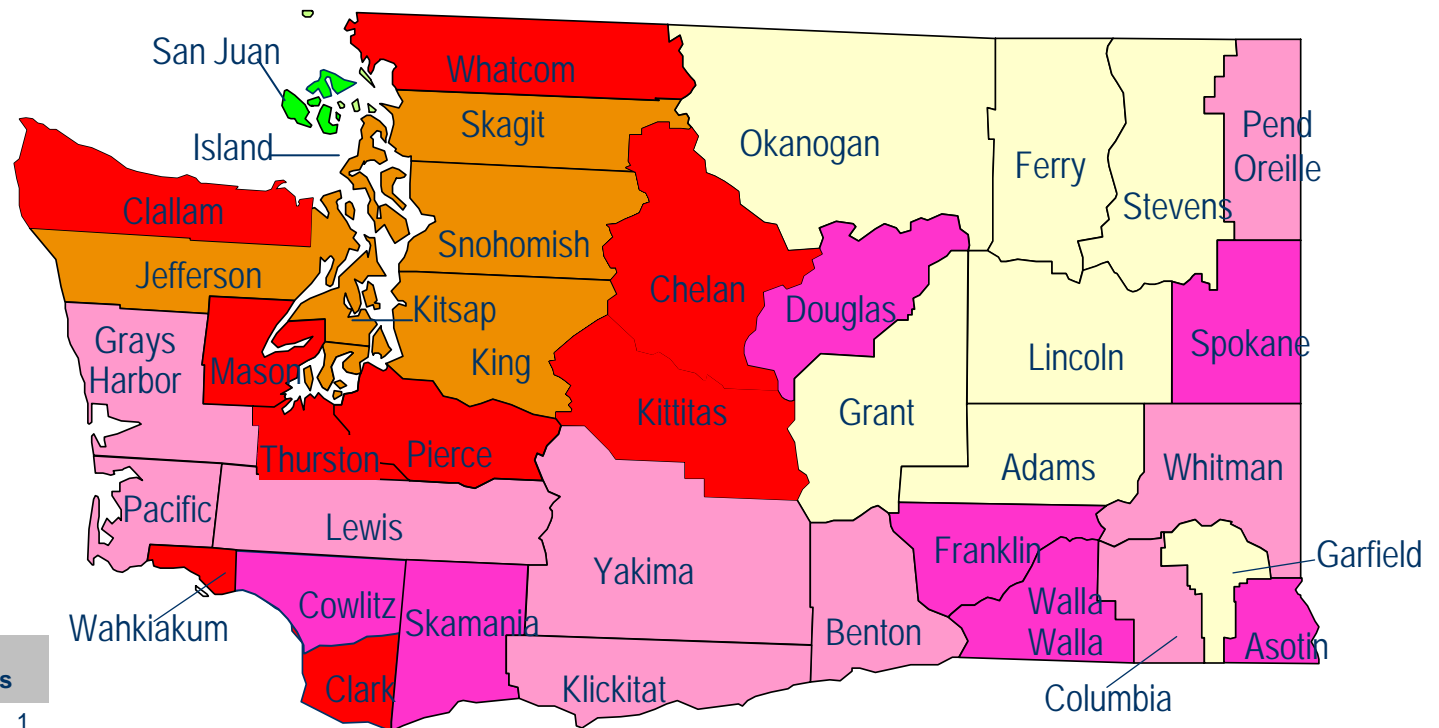
*Estimates based on HECM amount for a \$122,790 home and an annual creditline growth of 5.36%. Source: NCOA analysis using the AARP reverse mortgage calculator

Challenges

Issues for policymakers

- Seniors in 23 WA counties typically had home equity under \$100,000 in 2000.
- Upfront reverse mortgage loan costs are high for lower value homes.
- What happens when the equity is gone?
- How can reverse mortgages fit better into the State's LTC financing system?

Average home value distribution for Washington households age 65+ (2000)



Home value Classes		# of counties
\$324,853	1	
\$142,609-\$225,836	6	
\$106,329-\$136,504	9	
\$92,329-\$99,158	7	
\$73,431-\$89,429	9	
\$42,439-\$66,863	7	

Statewide average = \$152,624 in 2000

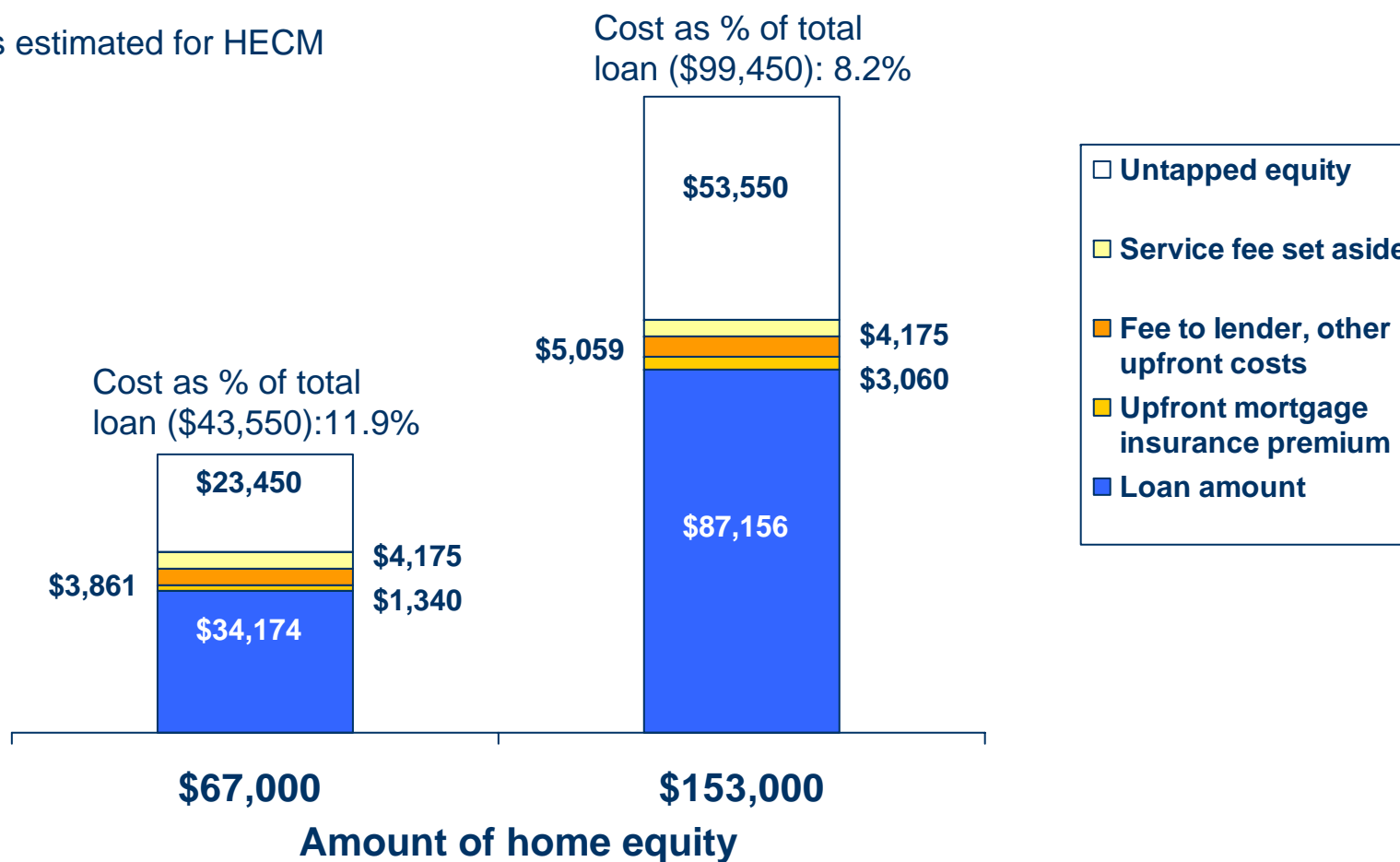
Statewide average = \$242,000 in 2004

Loan costs

- Origination fee - \$2,000 or 2% of value of home, whichever is more.
- Mortgage insurance for HECM loans - 2% of value of home.
- Other closing costs (title search, appraisal, etc).
- Repairs which may be needed so the home meets FHA minimum requirements.

Impact of upfront costs on loan size

Values estimated for HECM loans



Note: Based on the NRMLA reverse mortgage calculator for 6/6/06 for a borrower age 75. Interest rate for this week= 6.53%.

Potential role for Washington State

- Reduce the costs associated with HECMs.
 - Pay some or all of the upfront mortgage insurance premium.
 - Pay servicing fees to reduce the set-aside.
- Create a state reverse mortgage for LTC program.
 - Set costs for the loan. State funded RM insurance.
 - Medically underwritten, link to state programs.
- Partnership link to Medicaid for at-risk elders?

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